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REPUBLIC OF KENYA

THE NATIONAL ASSEMBLY

THIRTEENTH PARLIAMENT (FOURTH SESSION) - 2025

PUBLIC DEBT AND PRIVATIZATION COMMITTEE

REPORT ON THE CONSIDERATION OF THE EXPENDITURES OF THE CONSOLIDATED FUND SERVICES UNDER THE FY 2025/26 BUDGET ESTIMATES

JUNE 2025

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LIST OF ACRONYMS & ABBREVIATIONS

ABP	Annual Borrowing Plan
CBK	Central Bank of Kenya
CFS	Consolidated Fund Services
GDP	Gross Domestic Product
IMF	International Monetary Fund
MTDS	Medium-Term Debt Management Strategy
OCOB	Office of the Controller of Budget
PSSS	Public Service Superannuation Scheme
USD	United States Dollar

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CHAIRPERSON'S FOREWORD

The review of the Consolidated Fund Services (CFS) expenditures for the Financial Year 2025/26 presents a timely opportunity to realign our fiscal management strategies toward long-term sustainability and growth. While debt service remains the dominant component—accounting for 89% of CFS expenditure—a projected 7% decline offers a short-term fiscal reprieve. This window, though narrow, should be strategically leveraged to improve budget execution, invest in growth-enhancing sectors, and reduce the burden of non-discretionary expenditures.

Addressing challenges in pension disbursement, cash flow coordination, and overreliance on domestic borrowing requires practical and well-sequenced reforms. These include strengthening Treasury's cash and debt management functions, accelerating the rollout of the Treasury Single Account (TSA), and institutionalizing frameworks that ensure timely counterpart funding and prudent on-lending practices. Such measures are essential to improving liquidity, reducing commitment fees, and enhancing the credibility of the national budget.

The Committee notes the need to rebalance borrowing sources and to tap into alternative financing, including grants, climate finance, and concessional loans. We also caution that while instruments like securitization may provide liquidity, they should be used carefully to avoid undermining fiscal consolidation efforts.

This report is not only a reflection of the current fiscal pressures—it is a call to action. With coordinated effort, strengthened institutions, and adherence to fiscal discipline, Kenya can navigate the present constraints and lay a firmer foundation for inclusive and resilient economic growth.

Examination of the Consolidated Fund Service Expenditures (CFS), under the FY 2025/26 Budget Estimates.

The Committee has examined the proposed changes to the Consolidated Fund Services (CFS) Expenditures in line with its mandate and has prepared this report for consideration by the National Assembly. In reviewing the CFS expenditures, the Committee held 4 sittings during which, it held productive deliberations with key stakeholders and received their submissions. These include the Office of the Controller of Budget and the National Treasury.

Key Recommendations

Arising from these consultative engagements, the Committee has made the following recommendations:

1. In order to ensure full in-year pension disbursement, and clearance of pending obligations, the National Treasury should, within 30 days of the adoption of this report, implement an actionable framework to resolve delays in exchequer releases and address system downtimes that disrupt the processing of pension and gratuity disbursements.
2. In line with prior resolutions of the National Assembly, the National Treasury should expedite the implementation of the Treasury Single Account to consolidate idle government cash balances, improve liquidity management, and lower the government's borrowing costs through more predictable cash flow management.
3. To ensure full and timely disbursement of donor/loan financing and avoid incurrence of commitment fees, the National Treasury should ring-fence domestic counterpart funding from frequent supplementary budget reallocations and make counterpart funding provisions for loan agreements entered to mid-year.
4. To minimize the opportunity cost arising from waived on-lent loans and the payment of called-up government-guarantees, the National Treasury should, within 60 days:
   i. Formulate a standardized framework for determining interest rates on on-lent funds and the repayment of called up guaranteed loans. This framework should be aligned with market benchmarks on interest rates and credit worthiness.
   ii. Formulate enforcement mechanism to ensure timely repayments and reduce the risk of defaults by institutions benefiting from government financial support.
5. The National Treasury should adopt and enforce performance-based benchmarks and disbursement readiness protocols to prevent the accumulation of undrawn external loans, which continue to attract costly commitment fees. No new loan agreements should be executed without full compliance with the performance-based benchmarks and disbursement readiness protocols.
6. To reduce reliance on debt and enhance access to alternative financing, the National Treasury should, within 60 days of the adoption of this report, develop and publish a comprehensive national strategy for mobilizing non-debt financial resources, including grants, climate finance, and other concessional funding.

ACKNOWLEDGEMENTS

The Committee extends its gratitude to the Office of the Speaker of the National Assembly and the Office of the Clerk of the National Assembly, for the support extended in fulfilling its mandate of reviewing the expenditures of the Consolidated Fund Services under the Budget Estimates for FY 2025/26. Sincere gratitude is also extended to the National Treasury and the Office of the Controller of Budget for honouring the invitation and providing critical information.

Finally, the Committee would like to thank the Parliamentary Budget Office and the Directorate of Audit, Appropriations, and other Select Committees for the invaluable support provided in the review of the Consolidated Fund Service Expenditures and the finalization of this report.

It is therefore my pleasant undertaking, on behalf of the Public Debt and Privatization Committee, to table this report and recommend it for adoption by this House.

SIGNED

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HON. ABDI SHURIE, CBS, MP.
CHAIRPERSON, PUBLIC DEBT & PRIVATIZATION COMMITTEE

10 JUNE 2025
....
DATE

PREFACE

a) Establishment and Mandate of the Committee

The powers of each House of Parliament to establish committees and to make Standing Orders for the orderly conduct of its proceedings are provided for under Article 124 of the Constitution of Kenya, 2010. To ensure effective oversight on matters concerning public debt, debt guarantees, public-private partnerships, and the privatization of national assets, the National Assembly Standing Order 207A establishes the Public Debt and Privatization Committee, which is tasked with specific mandates such as:

i. Oversight of public debt and guarantees, pursuant to Article 214 of the Constitution
ii. Examine matters relating to debt guarantees by the National government;
iii. Oversight Consolidated Fund Services excluding audited accounts;
iv. Examine reports on the status of the economy in respect of the public debt;
v. Oversight of public-private partnership programs by the national government with respect of the public debt; and
vi. Oversight privatization of national assets

This Committee is therefore mandated, among other functions, to examine the Consolidated Fund Service Expenditures and propose recommendations to the House for adoption.

b) Membership of the Committee

The Public Debt and Privatization Committee as currently constituted, comprises the following Members of Parliament: -

CHAIRPERSON
Hon. Abdi Shurie, CBS, M.P.
Balambala Constituency
Jubilee Party

VICE-CHAIRPERSON
Hon. Njoki Irene Mrembo, M.P
Bahati Constituency
Jubilee Party

Hon. Omboko Milemba M.P
Emuhaya Constituency
ANC Party

Hon. (Dr.) Irene Kasalu M.P
Kitui County
Wiper Party

Hon. Kwenya, Thuku Zachary, M.P
Kinangop Constituency
Jubilee Party

Hon. Muiruri Muthama Stanley, M.P
Lamu West Constituency
Jubilee Party

Hon. Aden Daud, EBS, M.P
Wajir East Constituency
Jubilee Party

Hon. (Dr.) Daniel Manduku, M.P
Nyaribari Masaba Constituency
ODM Party

Hon. Barongo Nolfason Obadiah, M.P
Bomachoge Borabu Constituency
ODM Party

Hon. (CPA) Suleka, H. Harun. M.P
Nominated MP
UDM Party

Hon. Kipkoros Joseph Makilap M.P
Baringo North Constituency
UDA Party

Hon. Chege Njuguna M.P
Kandara Constituency
UDA Party

Hon. Abdi Ali Abdi, M.P
Ijara Constituency
NAP-K

Hon. Kirwa Abraham Kipsang, M.P
Mosop Constituency
UDA Party

Hon. Letipila Dominic Eli, M.P
Samburu North Constituency
UDA Party

c) Committee Secretariat

The Committee was supported by the following staff in the preparation of this report:

Mr. Leonard Machira
Principal Clerk Assistant II & Head of Secretariat

Mr. Chacha Machage
Senior Fiscal Analyst / Clerk Assistant

Mr. Job Mugalavai
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Ms. Audrey Ogutu
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Mr. Timothy Chiko
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Assistant Serjeant-at-Arms

Mr. George Mbaluka
Office Assistant

Mr. Danton Nirvana
Audio Officer III

d) Parliamentary Budget Office

The Committee also received technical support from the following staff of the Parliamentary Budget Office:

FA (Dr.) Martin Masinde, OGW
Director, Parliamentary Budget Office (PBO)

Mr. Robert Nyaga
Senior Deputy Director (PBO)

Ms. Julie Mwithiga
Senior Fiscal Analyst

1) INTRODUCTION

1. Pursuant to Articles 221 of the Constitution, and Sections 37 of the Public Finance Management Act, CAP. 412A, the National Treasury submitted the Budget Estimates for FY 2025/26 to the National Assembly on 30th April 2025 for consideration and approval.
2. Subsequently, the Public Debt and Privatization Committee is mandated to examine the estimates of the Consolidated Fund Service (CFS) Expenditures, which are contained within the estimates, in accordance with the National Assembly Standing Orders (S.O. 207A-1(c)), and table its report to the National Assembly (S.O. 207A(4)).
3. The Consolidated Fund Service (CFS) Expenditures constitute mandatory expenditures that are a charge to the Consolidated Fund[1] and do not form part of the annual Appropriations Bill[2]. These expenses include:
   i. Public debt servicing expenditures,
   ii. Pension payments, and
   iii. Salary and allowances for independent offices and constitutional commissions,
   iv. Guaranteed debt payments, among other expenditures.
4. This report examines the expenditures of the Consolidated Fund Services (CFS) as outlined in the Budget Estimates for FY 2025/26 and the medium term. It also summarizes stakeholder submissions, highlights key observations, and outlines corresponding recommendations.

2) CONSOLIDATED FUND SERVICES EXPENDITURES, FY 2025/26

5. The Consolidated Fund Services (CFS) expenditures comprise of mandatory expenditures that are charged directly to the Consolidated Fund as provided for under the Constitution and various Acts of Parliament. They include; a) public debt servicing expenditures, b) Pension payments, c) Salaries and allowances for holders of Constitutional and Independent Offices, and other miscellaneous expenditures.
6. Consolidated Fund Services (CFS) expenditures in FY 2025/26 will amount to Kshs. 2.14 trillion, a decrease of Kshs. 148 billion from Kshs. 2.28 trillion in FY 2024/25. The decline, which will provide fiscal relief in FY 2025/26, is largely attributed to reduced debt service costs, though pension obligations are expected to rise. Despite this temporary dip, CFS expenditures will remain the largest expenditures of government and are expected to grow steadily, reaching Kshs 2.5 trillion by FY 2028/29, with public debt service alone making up an average of 90% of CFS outlays..
7. The FY 2025/26, Kshs. 2.14 trillion, CFS expenditure is broken down as follows:
   i. Public debt service expenses - Kshs 1.9 trillion (89%);
   ii. Pension expenditure - Kshs 234.9 billion (11%); and
   iii. Salaries, allowances & miscellaneous expenditures - Kshs 4.7 billion (0.22%).
8. This therefore continues to indicate the need for prudent debt management targeting the reduction of debt servicing expenditures in order to improve fiscal space to implement other government expenditures or lessen further borrowing.
9. Consolidated Fund Services (CFS) expenses will remain the largest government expenditures in FY 2025/26. This is because they exceed both ministerial recurrent and ministerial development expenditure, which will amount to Kshs. 1.789 trillion

[1] Article 206
[2] Article 221(7)

and Kshs. 704 billion, respectively. As the largest expenditure and a direct charge to the Consolidated Fund, the increase in CFS expenditures reduces fiscal flexibility and in-year liquidity constraints to budget implementation and could affect financing for other policy initiatives that would have to be postponed or underfunded.

2.1. Public Debt Service Expenditures

10. In FY 2025/26, public debt servicing is projected at Kshs 1.9 trillion—comprising Kshs 1.3 trillion (69%) in domestic debt and Kshs 586.4 billion (31%) in external debt. This reflects a 7% decrease (Kshs 140.67 billion) from the FY 2024/25 estimate of Kshs 2.04 trillion. The decline is mainly attributed to a significant drop in redemption costs of Kshs 242.59 billion (23%), although this is partially offset by a Kshs 101.92 billion (10%) increase in interest payments.

11. Despite this temporary decline, debt service obligations have been on an upward trajectory, driven by rising debt stock, fluctuating interest rates, and exchange rate volatility. As such, the projected Kshs 1.9 trillion marks the lowest debt servicing cost over the medium term—offering a narrow window of fiscal relief that should be used prudently to enhance budget efficiency, reduce future financing needs, and reorient spending toward growth-enhancing investments.

12. Interest payments on public debt are projected to increase by Kshs 101.92 billion (10%) in FY 2025/26, reaching Kshs 1.097 trillion—up from Kshs 995.77 billion in FY 2024/25. This rise reflects higher interest obligations on both domestic and external debt. As a share of ordinary revenue, interest payments will absorb 40%, underscoring the growing cost of debt and its implications for fiscal space. This elevated burden not only heightens interest rate risk but also crowds out essential government investments and inflates the cost of financing the fiscal deficit.

13. Kenya's fiscal outlook reflects a notable reallocation of public spending. Between FY 2015/16 and FY 2025/26, interest payments as a share of GDP are expected to increase from 3.2% to 5.7%, while development expenditure will decline from 7.2% to 3.5%. This inverse trend signals a structural crowding-out effect, where escalating debt service obligations are displacing capital investment in infrastructure, education, and other development-enabling sectors. The opportunity cost is stark—resources that could stimulate economic transformation and improve welfare are increasingly diverted toward servicing past borrowing.

14. The broader macroeconomic impact is reflected in the decline of total investment as a share of GDP, from 19.5% in FY 2015/16 to just 4.1% in FY 2025/26. Such underinvestment undermines capital formation, lowers the marginal productivity of labor, and reduces the country's long-term growth potential. It also raises concerns about fiscal sustainability, as shrinking investment today may erode the future tax base needed to meet rising debt obligations. If unaddressed, this dynamic could lead Kenya into a debt overhang scenario, where both public and private investment is stifled—stalling structural transformation and entrenching welfare losses.

15. Debt redemptions will total Kshs 803.7 billion, a notable decrease of Kshs 242.59 billion (23%) from external and domestic debt due to reduced maturity of domestic debt in FY 2025/26 (Kshs 463.5 billion) compared to FY 2024/25 (569.9 billion). The lesser maturity of external debt is mainly due to the lower redemption of the Trade Development Bank syndicated loan and less refinancing from other bilateral loans. This easing in redemption pressure could create additional fiscal space in FY 2025/26, especially if supported by strengthened cash management practices such as the operationalization of a Single Treasury Account.

a. Domestic Debt Service.

16. Domestic debt service for FY 2025/26 will be Kshs. 1.314 billion constituting the largest share of Public Debt Service at 69%. It comprises of a) domestic debt redemption expenditures worth Kshs. 463.51 billion and b) Interest expenditure worth Kshs. 851.42 billion. While this represents a slight decline of Kshs 22.2 billion from the FY 2024/25 estimate of Kshs 1.34 trillion, domestic debt service is expected to rise steadily, reaching a peak of Kshs 1.642 trillion by FY 2028/29. The increase in domestic debt service will largely be contributed to by domestic interest payment which will average at 56% of total domestic debt service and is consistent with the projected reliance on domestic borrowing to finance the budget deficit.

i. Domestic Debt Interest Payments

17. Domestic interest payments are projected to rise by Kshs 84.18 billion (11%), from Kshs 767.24 billion in FY 2024/25 to Kshs 851.42 billion in FY 2025/26, and are expected to climb further to Kshs 932.11 billion by FY 2028/29. Historical trends indicate a consistent increase in domestic interest costs, in line with the growing stock of domestic debt. With the 2025 Medium Term Debt Management Strategy emphasizing greater reliance on domestic financing, interest payments on domestic debt are likely to rise further. The extent of this impact will depend on factors such as domestic interest rates, the depth of the local financial markets, and the effect on private sector access to credit.

18. A look at the composition of domestic interest payments reveals that treasury bonds account for the largest proportion of domestic interest repayment (Kshs. 744.79 billion) due to the continued efforts of lengthening the maturity profile of domestic debt by replacing short-term securities and mitigating refinancing risk that is occasioned by short term financing. However, it is observed that charges to the overdraft facility will increase by Kshs. 3.46 billion to Kshs. 12.8 billion.

ii. Domestic Debt Redemption Payments

19. Domestic debt redemptions are projected to decline by Kshs 106.38 billion in FY 2025/26, dropping from Kshs 569.89 billion in FY 2024/25 to Kshs 463.51 billion. This reduction is largely due to a lighter maturity schedule of domestic bonds. However, a sharp spike is expected in FY 2026/27, with redemptions peaking at Kshs 735.24 billion. This elevated pressure is likely to continue beyond the medium term, indicating increased refinancing risks. As such, proactive liability management strategies may be required to restructure the redemption profile, reduce refinancing volatility, and limit the potential escalation of interest costs.

b. External Debt Service

20. External debt service is projected to amount to Kshs. 586.46 billion in FY 2025/26 reflecting a decline by Kshs. 118 billion from Kshs. 704.92 billion in FY 2024/25. This reduction is primarily due to a decrease in external debt redemption by Kshs. 136 billion, which will be partially offset by an increase in external interest payments of Kshs. 18 billion. Despite this reduction, external debt service is projected to increase in FY 2027/28 due to the increase in interest and redemption payments for International Sovereign Bonds and bilateral loans.

i. External Debt Interest Expenditures

21. External debt interest expenditures are projected to increase by Kshs. 17.75 billion from Kshs. 228.52 billion in FY 2024/25 to Kshs. 246.27 billion in FY 2025/26. However, over the medium term, these costs are expected to decline steadily, reaching Kshs. 216.52 billion by FY 2028/29. This trend suggests a potential easing of external

debt service pressures, attributable to: (i) a strategic shift toward domestic borrowing, reducing reliance on external financing; (ii) lower global benchmark interest rates; and (iii) the preferential terms of concessional debt, which mitigate long-term repayment burdens.

22. The movements in external interest for FY 2025/26 will be majority driven by the addition of interest for the 2025 International Sovereign Bond of Kshs. 19.71 billion and the following major creditors:

1.	2025 International SVRNG Bond (USD 1.5 BN)	*Kshs. 19.71 billion*
2.	New Loans	Kshs. 22.12 billion
3.	International Bank for Reconstruction and Development	Kshs. 15.19 billion
4.	International Monetary Fund	Kshs. 14.66 billion
5.	International Development Association	Kshs. 26.01 billion
6.	Africa Development Bank	Kshs. 15.84 billion
7.	EXIM Bank of China	Kshs. 34.26 billion
8.	2024 International SVRNG Bond (USD 1.5 Bn.)	Kshs. 20.23 billion
9.	2018 International SVRNG Bond (USD 2 Bn.)	Kshs. 21.44 billion
10.	2019 International SVRNG Bond (USD 1.2 Bn.)	Kshs. 13.28 billion
11.	2021 International SVRNG Bond (USD 1 Bn.)	Kshs. 8.71 billion

ii. External Debt Redemption Expenditures

23. External debt principal repayments are projected to decrease by Kshs. 136.21 billion, from Kshs. 476.4 billion in FY 2024/25 to Kshs. 340.19 billion in FY 2025/26. However, repayments will subsequently rise to Kshs. 488.61 billion by FY 2027/28 as Kenya begins servicing maturing sovereign bonds and syndicated loans. Such concentrated external debt maturities may trigger three key risks: (i) refinancing risk as large obligations come due, (ii) heightened interest rate vulnerability on new borrowings, and (iii) amplified exchange rate exposure - collectively elevating the total cost of external debt.

24. The creditor breakdown of the reduction in FY 2025/26's stems from, a) Kshs. 116.86 billion decrease in Trade Development Bank's syndicated facility repayments, b) Kshs. 80.59 billion reduction in 2019 International Sovereign Bond payments, c) Lower repayments to bilateral creditors (Austria, Spain, France).

25. The creditors with the largest External Debt Redemptions include:

1.	Trade Development Bank Synd. Loan	Kshs. 56.98 billion
2.	2019 Int. SVRNG Bond ($ 900 Mn)	Kshs. 14.7 billion
3.	Standard Bank SA Synd.	Kshs. 12.57 billion
4.	Exim Bank of China	Kshs. 95.43 billion
5.	France	Kshs. 11.29 billion
6.	Africa Development Bank	Kshs. 13.63 billion
7.	International Development Association	Kshs. 51.89 billion
8.	International Monetary Fund	Kshs. 13.32 billion
9.	Italy	Kshs. 12.67 billion

2.2. Pension Expenditures

26. Pension expenditures represent the second largest component of Consolidated Fund Services at 11% of total outlays. For FY 2025/26, pension costs are projected at Kshs. 234.9 billion, reflecting a Kshs 11.75 billion (5%) increase from FY 2024/25's Kshs. 223.15 billion. This growth stems from: a) Kshs. 6.55 billion rise in ordinary pension payments and b) Kshs 7.74 billion increase in commuted pensions.

27. These increases will be partially offset by a Kshs 2.53 billion reduction in Public Service Superannuation Scheme (PSSS) expenditures. Medium-term projections show pension expenses growing to Kshs. 256 billion by FY 2028/29.

2.3. Salaries, Allowances & other Miscellaneous Expenditures

28. Salaries Compensation for Constitutional and Independent office holders is projected to increase by Kshs. 584.64 million, growing from Kshs. 4.08 billion in FY 2024/25 to Kshs. 4.73 billion in FY 2025/26. The primary driver of this increase is a Kshs. 543.13 million allocation for judicial salaries, including those of the Chief Justice and other judges.

29. The FY 2025/26 budget makes no provision for expenditures related to guaranteed debt obligations. An agreement for the repayment of called-up guarantee was provided to the committee and it was observed that the interest rate applicable was not commensurate to market rates and could expose government resources to high opportunity cost.

30. Miscellaneous Services expenditures will rise by Kshs. 15 million, from Kshs. 56 million to Kshs. 71 million. This increase is entirely attributable to higher employer contributions to the Housing Levy, which will grow from Kshs. 53 million to Kshs. 68 million.

3) SUBMISSIONS BY THE CONTROLLER OF BUDGET

The Committee was informed that:

31. The National Government initially approved a budget of Kshs. 4.49 trillion for FY 2024/2025. This was later revised to Kshs. 4.37 trillion in the First Supplementary Estimates and further increased to Kshs. 4.63 trillion in the Second Supplementary Estimates—marking a 2% rise compared to the FY 2023/2024 budget of Kshs. 4.54 trillion.

32. The total budget included Kshs. 616.1 billion for development expenditures by ministries, Kshs. 1.73 trillion for recurrent expenditures, and Kshs. 2.29 trillion allocated to the Consolidated Fund Services (CFS).

33. By the end of the first nine months of FY 2024/2025, actual expenditure stood at Kshs. 2.4 trillion, accounting for 59% of the revised net estimates. Exchequer releases comprised Kshs. 170.8 billion (49%) for development expenditure, Kshs. 991.75 billion (70%) for recurrent expenditure, and Kshs. 1.22 trillion (53%) for CFS.

34. On April 30, 2025, the National Treasury presented the FY 2025/2026 Budget Estimates, which reflected a 1.4% reduction in gross expenditure—from Kshs. 4.63 trillion in FY 2024/2025 to Kshs. 4.57 trillion.

35. The original allocation for CFS in FY 2024/2025 was Kshs. 2.147 trillion. This figure was marginally revised to Kshs. 2.138 trillion in the First Supplementary Estimates due to adjusted forecasts for debt servicing and pensions. In the Second Supplementary Estimates, the allocation rose substantially to Kshs. 2.289 trillion, mainly due to increased debt service obligations and adjustments for pensions and statutory liabilities.

36. The projected CFS budget for FY 2025/2026 is Kshs. 2.14 trillion—representing a reduction of Kshs. 148 billion or 6.5% from the prior year.

37. As of March 31, 2025, the total public debt stock was Kshs. 11.63 trillion, comprising Kshs. 5.24 trillion (46%) in external debt and Kshs. 6.12 trillion (54%) in domestic

debt. This reflects a 7% increase from Kshs. 10.58 trillion recorded as of June 30, 2024.

38. The 1% increase in external debt was attributed to disbursements of Kshs. 194.1 billion from foreign commercial banks and Kshs. 126.3 billion from multilateral institutions. Domestic debt grew by 13%, largely driven by increased local borrowing.

39. A total of Kshs. 2.04 trillion was allocated for public debt servicing in FY 2024/2025, representing 89% of the total CFS allocation. This included Kshs. 1.05 trillion for principal repayments and Kshs. 995.77 billion for interest payments.

40. In the first nine months of FY 2024/2025, actual spending on public debt amounted to Kshs. 1.2 trillion, accounting for 59% of the revised estimates.

41. External debt servicing amounted to Kshs. 466.7 billion, comprising of:

i. Kshs. 295.3 billion in principal payment;
ii. Kshs.170.2 billion in interest payment;
iii. Kshs.770.54 million in commitment fees;
iv. Kshs. 2.8 million in penalties paid; and
v. Kshs. 477.14 million in other charges.

42. During the first nine months of FY 2024/2025, domestic debt service payments totaled Kshs. 729.45 billion, comprising Kshs. 186.85 billion in principal repayments and Kshs. 542.60 billion in interest payments.

43. Commitment fees paid on external borrowings amounted to Kshs. 770.55 million—broken down as follows: Kshs. 347.5 million on bilateral loans, Kshs. 406.8 million on multilateral loans, and Kshs. 16.25 million on commercial bank facilities.

44. The total allocation for pensions and gratuities in FY 2024/2025 was initially Kshs. 199.37 billion, which was subsequently revised upwards to Kshs. 223.15 billion in the First and Second Supplementary Estimates.

45. As at the end of the third quarter of FY 2024/2025, actual exchequer issues for pensions and gratuities stood at Kshs. 115.1 billion—reflecting a 52% absorption rate against the annual provision of Kshs. 223.15 billion.

46. This level of underperformance is concerning, particularly given the statutory and non-discretionary nature of pension obligations, which are critical to the welfare of retired public servants. The shortfall was primarily attributed to delays in exchequer releases and system-related downtimes.

47. Ordinary and commuted pension payments processed during the reporting period amounted to Kshs. 131.92 billion. However, the exchequer released only Kshs. 101.78 billion, leaving a funding gap of Kshs. 30.14 billion. Additionally, a request of Kshs. 11.66 billion to cater for the Government of Kenya's (Employer) contributions to the Public Service Superannuation Scheme (PSSS) remained pending as at 31st March 2025.

48. To ensure prompt payment of pension benefits, it is imperative that the systemic issues causing exchequer delays and technological downtimes be urgently addressed.

49. It is further noted that the Government carried forward an outstanding amount of Kshs. 23 billion in unmet pension and gratuity obligations from FY 2023/2024 into the current fiscal year.

50. This carryover further exacerbates fiscal pressure on current pension allocations. Given that pensions are first-charge expenditures, it is essential that they be prioritized in order to guarantee financial security for beneficiaries and compliance with statutory obligations.

51. The initial allocation to Salaries, Allowances, and Miscellaneous Services (SAM) in FY 2024/2025 was Kshs. 4.21 billion. This was revised downwards to Kshs. 4.14 billion in the Second Supplementary Estimates, compared to Kshs. 4.74 billion allocated in FY 2023/2024. The reduction reflects the ongoing implementation of recommendations aligning budgeted remuneration for constitutional office holders with Salaries and Remuneration Commission (SRC) guidelines, as per past Budget Implementation Review Reports.

52. Actual expenditure on SAM by the end of March 2025 was Kshs. 2.97 billion, representing 72% absorption of the annual estimates—an improvement over the 52% absorption rate (Kshs. 2.49 billion) recorded over a similar period in FY 2023/2024.

53. The Government utilized the overdraft facility—its short-term borrowing instrument—to address temporary cash shortfalls. As at the end of the third quarter, the facility's ceiling was Kshs. 97.05 billion. The average outstanding balance during the period attracted an interest rate of 12% per annum, resulting in interest charges totaling Kshs. 5.2 billion.

54. A significant portion of the overdraft was applied towards urgent payments, particularly for domestic debt redemptions and interest on maturing government securities. While this ensured timely debt servicing—vital for maintaining investor confidence and financial market stability—it also introduced high borrowing costs. The relatively expensive nature of the overdraft facility, when frequently used, compounds the cost of domestic borrowing and undermines long-term fiscal sustainability.

55. As of March 31, 2025, the National Treasury had requisitioned Kshs. 5.16 billion to cover exchange rate fluctuations related to external debt payments. This represents an 18.2% decrease from the Kshs. 6.31 billion required over the same period in FY 2023/2024, suggesting either improved exchange rate stability or enhanced currency risk mitigation measures.

56. The following costs and risks of the Consolidated Fund Services Expenditure had been observed by the Controller of Budget:

i. High and Increasing Debt Servicing Costs: By the third quarter of FY 2024/25, debt servicing payments had reached Kshs. 1.2 trillion—equivalent to 59% of the Kshs. 2.04 trillion annual allocation—falling short of the expected 75% performance and signaling continued fiscal strain.

ii. Potential Delays or Defaults in Pension and Gratuity Payments: Only 52% (Kshs. 115.14 billion) of the allocated Kshs. 223.15 billion for pensions had been disbursed by end of March 2025. The government had also failed to allocate Kshs. 23 billion for pension and gratuity obligations in FY 2023/24, increasing the risk of arrears.

iii. Costly Reliance on Central Bank Overdraft: The government incurred Kshs. 5.2 billion in interest on overdraft facilities from the Central Bank of Kenya, reflecting continued reliance on short-term, high-cost borrowing.

iv. Foreign Exchange Exposure: A total of Kshs. 5.16 billion was used to cover foreign exchange shortfalls for external debt, highlighting ongoing vulnerability to currency fluctuations.

v. Rising Salary and Miscellaneous Expenditures: Expenditures on salaries, allowances, and other items are projected to rise from Kshs. 4.08 billion to Kshs. 4.67 billion—an increase of 14.3%—placing further pressure on non-discretionary spending.

vi. Commitment Fees on Undisbursed Loans: The government incurred Kshs. 770.5 million in commitment fees, indicating low project readiness, slow disbursements, and inefficiencies in loan execution.

57. In order to address the issues raised, the following policy proposals were recommended to the Committee:

i. Implement Fiscal Consolidation: Curtail non-essential spending to reduce the budget deficit and ease pressure on domestic borrowing.
ii. Boost Domestic Revenue Collection: Strengthen tax administration and compliance to finance expenditures through internal sources and reduce reliance on debt.
iii. Adopt Supportive Monetary Policies: Create a favorable macroeconomic environment to lower domestic interest rates and reduce the cost of borrowing.
iv. Enhance Debt Management Practices: Regularly assess the public debt portfolio and prioritize concessional borrowing over costly commercial loans.
v. Prioritize Statutory Pension Payments: Treat pensions and gratuities as first-charge obligations to avoid arrears.
vi. Minimize Use of CBK Overdrafts: Engage the Central Bank on more favorable overdraft terms and improve cash management to reduce dependency.
vii. Strengthen Cash Flow Forecasting and Budget Execution: Fully operationalize the Treasury Single Account (TSA) to consolidate government cash and streamline spending.
viii. Mitigate FX Risk Exposure: Use financial instruments to hedge against foreign exchange fluctuations in external debt servicing.
ix. Reduce Commitment Fees: Ensure project readiness before contracting loans and actively track undisbursed funds to cancel idle loan tranches promptly.
x. Establish a Loan Redemption Fund: Activate the Sinking Fund under Section 50(8) of the PFM Act, 2012, to support timely debt repayments.
xi. Conduct Comprehensive Debt Audits: Regular audits of debt contracting, utilization, and sustainability to enhance transparency and accountability.

4) SUBMISSIONS BY THE NATIONAL TREASURY

The Committee was informed that:

58. As of 30th April 2025, the total public debt was recorded at Kshs. 11.5 trillion, representing 66.9 percent of GDP. This comprised external debt of Kshs. 5.3 trillion (46.4 percent of the total) and domestic debt of Kshs. 6.2 trillion (53.6 percent of the total).

59. The fiscal framework for FY 2025/26 and the Medium-Term period is aligned with the Government's priority interventions under the Bottom-Up Economic Transformation Agenda (BETA). It aims to moderate the annual growth in public debt while advancing liability management efforts and sustaining uninterrupted public service delivery.

60. The fiscal strategy targets a gradual narrowing of the fiscal deficit, reducing it from 5.3 percent of GDP in FY 2023/24 to 2.7 percent of GDP by FY 2028/29, through enhanced revenue mobilization and implementation of expenditure rationalization measures.

61. The Present Value (PV) of public debt-to-GDP ratio is projected to decline over the medium term, moving towards the established debt anchor of 55 percent, supported by ongoing fiscal consolidation and policy reforms.

62. For FY 2025/26, total revenue, including Appropriations-in-Aid (AIA), is estimated at Kshs. 3.32 trillion (17.2 percent of GDP), compared to Kshs. 3.1 trillion (17.6 percent of GDP) in the FY 2024/25 Supplementary No. II Budget.

63. Of this, ordinary revenue is expected to reach Kshs. 2.8 trillion (14.3 percent of GDP), rising from Kshs. 2.6 trillion (14.8 percent of GDP) in the FY 2024/25 Supplementary No. II Budget.

64. The projected overall expenditure and net lending for FY 2025/26 stands at Kshs. 4.2 trillion (22 percent of GDP), up from Kshs. 4.01 trillion (23 percent of GDP) in the FY 2024/25 Supplementary No. II Budget. The overall expenditures in FY 2025/26 comprise:

    i. Recurrent Expenditure of Kshs 3,119.2 billion (16.2 percent of GDP);
    ii. Development Expenditure of Kshs 643.9 billion (3.3 percent of GDP);
    iii. Transfers to County Governments of Kshs 474.9 billion; and
    iv. Contingency Fund of Kshs 2.0 billion respectively.

65. Based on projected revenue and expenditure levels, the fiscal deficit (including grants) for FY 2025/26 is estimated at Kshs. 876.1 billion, equivalent to 4.5 percent of GDP. This reflects a marginal reduction from the Kshs. 887.2 billion (5.1 percent of GDP) deficit projected in the FY 2024/25 Supplementary No. II Budget.

66. The FY 2025/26 fiscal deficit is expected to be financed through net external borrowing of Kshs. 284.2 billion (1.5 percent of GDP) and net domestic borrowing of Kshs. 591.9 billion (3.1 percent of GDP), in line with the approved Medium-Term Debt Management Strategy (MTDS).

67. The FY 2025/26 Budget Estimates target an increase in the primary surplus, from 0.6 percent of GDP in FY 2024/25 to 1.9 percent of GDP over the medium term. This is crucial for achieving the goal of reducing debt to the 55 percent debt anchor.

68. The implementation of the 2025 MTDS is projected to manage both costs and risks through FY 2027/28. Key outcomes include:

    i. A decline in the nominal debt-to-GDP ratio from 65.7 percent to 57.8 percent,
    ii. A reduction in the present value of debt-to-GDP ratio from 63 percent to 52.8 percent, and
    iii. A lower interest payment burden, from 5.4 percent to 4.6 percent of GDP over the projection period.

69. The overall CFS Expenditures budget for FY 2025/26 is projected to decline by Kshs. 148 billion, from Kshs. 2.29 trillion in the FY 2024/25 Supplementary No. II Budget to Kshs. 2.14 trillion in FY 2025/26. This decrease is primarily attributed to the reduction in redemption expenditure for both domestic and external debt maturing in FY 2025/26.

70. The Public debt service for FY 2025/26 is estimated at Kshs. 1.9 trillion, a decrease of Kshs. 140.6 billion from Kshs. 2.04 trillion in the FY 2024/25 Supplementary No. II Budget. The interest payment is expected to increase to Kshs. 1.1 trillion from Kshs. 995.8 billion while redemptions to decrease to Kshs. 803.7 billion from Kshs. 1.05 trillion in FY in the FY 2024/25 Supplementary No. II Budget.

71. The allocation for Salaries of Constitutional Office Holders for FY 2025/26 has been projected at Kshs. 4.67 billion, representing an increase of Kshs. 585 million from Kshs. 4.08 billion in the FY 2024/25.

72. The rise in remuneration for Constitutional and Independent Office holders is largely due to increased compensation for Judges, with their total personnel emoluments budget projected to increase by Kshs. 543 million, from Kshs. 3.11 billion in FY 2024/25 to Kshs. 3.66 billion in FY 2025/26.

73. The increase is driven by;

    i. Annual salary adjustments,
    ii. Implementation of Phase II of the Judges' Salary Review, and
    iii. Payment of hardship allowance arrears for Judges stationed in designated hardship areas since 1st October 2019, in compliance with the judgment in Nairobi HCCPET E048 of 2022.

74. The Liability Management Operation (LMO) benefits public finances by allowing the National Treasury to borrow from the market rather than using revenue to settle near-term maturities, thereby extending debt obligations.

75. In February 2025, the National Treasury executed a Liability Management Operation targeting a USD 900 million Eurobond due in 2027, which bolstered domestic market confidence.

76. For future transactions, the National Treasury may issue new debt instruments to refinance maturing obligations, depending on international market conditions.

77. In 2017, the Kenyan Government, through the National Treasury, guaranteed a Kenya Airways (KQ) loan from Exim Bank, with a maximum value of USD 525 million.

78. The Government assumed the full loan amount (Kshs 58 billion) and entered into a shareholder loan agreement with KQ, with repayment due on 5th October 2028.

79. The National Steering Committee has approved a three-year roadmap for transitioning to accrual accounting. Since 1st July 2024, Ministries, Departments, Agencies, Projects, Funds, County Executives, and County Assemblies have been preparing financial statements on an accrual basis.

80. The Steering Committee also endorsed an updated Standard Chart of Accounts incorporating accrual accounting codes and GFS 2014 compliance, which will be mandatory for all public entities from 1st July 2025.

81. To facilitate this transition, the National Treasury launched a dedicated website hosting the circulars, standards, templates, and the Standard Chart of Accounts.

82. Stakeholder capacity building is critical to the project's success. Parliament allocated Kshs 200 million to the National Treasury, enabling training and awareness programs in Q4 of this financial year.

83. The National Treasury is reengineering IFMIS with support from a specialist firm to enable dual cash/accrual reporting, with full accrual functionality expected by 1st July 2025.

84. The Cabinet approved the implementation of the Treasury Single Account (TSA) in three phases, starting in FY 2025/26: Cluster One (Ministries, Departments, and Agencies), Cluster Two (County Governments and entities), and Cluster Three (SAGAs & State Corporations).

85. The National Treasury has started to guide the transition towards the Treasury Single Account through efforts such as:

i. Establishment of the TSA Technical Committee comprising representatives from the Treasury, Central Bank of Kenya (CBK), and Controller of Budget (COB) submitted its report on the appropriate design architecture for a Hybrid TSA model as approved by the Cabinet.

ii. Supporting the go-live of the Central Bank's upgraded T-24 Core Banking system, which is an essential enabler of the Invoice Twinning functionality. The upgraded T-24 system is going live in July 2025, thus enabling the implementation of the TSA's core systems.

86. The Privatization Act, 2023, was enacted on 9th October 2023 but was later ruled unconstitutional by the High Court on 24th September 2024 following a legal challenge by Katiba Institute. The petition disputed the legality of Sections 7, 22(5), 48(1), 50, and 64 of the Act.

87. The legal challenge opposed the privatization of six state corporations—including the Kenyatta International Convention Centre (KICC), Kenya Pipeline Company (KPC), and New Kenya Cooperative Creameries (NKCC)—arguing that these entities were either monopolies or of strategic national importance. The petition also claimed there was insufficient public participation in the legislative process.

88. Following the Attorney General's advice, the National Treasury opted not to appeal the High Court's decision and instead reverted to the 2005 Privatization Act. A review is underway to identify gaps and necessary amendments.

89. As part of reforms to enhance efficiency and reduce debt in the sugar sector, the Ministry of Agriculture and Livestock Development has leased four state-owned sugar factories. This initiative aims to revive the struggling industry.

90. The Cabinet approved the Kenya Roads Board's (KRB) plan to securitize an additional Kshs. 12 per liter from the Road Maintenance Levy Fund (RMLF)—Kshs. 7 per liter (raising Kshs. 175 billion) and Kshs. 5 per liter (raising Kshs. 125 billion)—to ensure uninterrupted funding for ongoing road projects.

91. The securitized funds will be used to settle maturing obligations of road agencies. The KRB will manage the Note Issuance Program, selling Kshs. 5 per liter from the Fuel Levy to Oak Assetco SPV Limited, with the Eastern and Southern African Trade and Development Bank serving as Lead Arranger and Transaction Adviser.

92. The Kshs. 175 billion Note Issuance Program is nearing completion and will address pending road agency obligations by 31st December 2025, allowing stalled roadworks to resume nationwide.

93. In Kenya, securitization of public funds involves transferring government assets or receivables to a Special Purpose Vehicle (SPV), which then issues asset-backed securities to investors. This enables the government to raise capital while sharing risk with investors.

94. The Kenya Roads Board Act (Cap 408), empowers the KRB to develop financing strategies, including securitization, and allows the KRB—with joint approval from the Treasury and Transport ministries—to allocate up to 50% of RMLF collections (Kshs. 12 per liter) for securitization.

95. In securitization arrangements, public funds are pooled into an SPV, which issues securities backed by these assets. Investors receive payments from the cash flows of these assets and assume the associated risks, while the government is relieved of asset management responsibilities.

96. The impact of securitization of public funds on public debt sustainability can include:

i. Securitization provides a way for the government to raise funds for various projects, such as infrastructure development or public goods and services;
ii. Securitization involves the transfer of assets, through this the government can reduce its debt burden and improve its financial profile.
iii. Securitization can provide access to capital markets, allowing the government to tap into a wide range of investors and the government can obtain lower financing costs;
iv. Securitization can be a viable way to finance large-scale projects that require significant upfront investment and allows the government to diversify risk by transferring it to investors; and,
v. Securitization can improve liquidity in the capital markets, making it easier for investors to trade and invest in public funds.

5) COMMITTEE OBSERVATIONS

97. Arising from the consideration of the estimates and submissions from stakeholders, the Committee made the following pertinent observations, THAT:

1. Debt service, which constitutes 89% of Consolidated Fund Services (CFS) expenditures, is projected to decrease by 7% from Kshs 2.04 trillion in FY 2024/25 to Kshs. 1.9 trillion in FY 2025/26. This temporary decline will result in the lowest debt servicing requirement for the medium term thus providing limited fiscal reprieve which should be strategically utilized to improve budget execution and reallocate resources toward investments that support long-term economic growth.

2. The rise in non-discretionary expenditures, such as debt service and pensions, is placing significant pressure on cash flow management. To ensure seamless budget execution, it is crucial to adopt robust cash forecasting methods and strengthen coordination between cash and public debt management functions, helping to mitigate short-term liquidity challenges.

3. Pension and gratuity allocations are set to increase by 5.3%, from Kshs. 223.15 billion to Kshs. 234.9 billion in FY 2025/26. However, persistent delays in exchequer releases and system downtimes continue to affect timely disbursement to pensioners. Compounding this issue is a Kshs. 23 billion carry-over from FY 2023/24, resulting from unmet obligations.

4. In FY 2025/26, the fiscal deficit is expected to be financed through a mix of 32% net foreign financing and 68% net domestic financing. This increased dependence on the domestic markets could overwhelm the financial depth of the domestic market. This could affect the market's ability to simultaneously support fiscal needs and serve as a reliable buffer, especially over the medium term. A more balanced approach to borrowing sources is needed to ensure sustainability.

5. Accelerating the implementation of a TSA remains critical. This globally recognized cash management reform would enhance the National Treasury's capacity to finance budgetary needs with minimal cost and risk, while also ensuring efficient liquidity utilization across government accounts.

6. One of the major impediments to the disbursement of development partner funds is the non-release of counterpart financing—often due to supplementary budget reallocations. This results in the incurrence of commitment fees. To address this, counterpart contributions, whether from Appropriations-in-Aid or the exchequer, should be ringfenced to guarantee full project financing.

7. From FY 2015/16 to FY 2025/26, public debt interest payments as a share of GDP are projected to rise from 3.2% to 5.7%, while development expenditure will fall from 7.2% to 3.5%. This reflects a structural shift with rising debt service displacing investments in infrastructure, education, and other growth-critical sectors. As such, overall investment has similarly declined, from 19.5% of GDP to just 4.1% of GDP, over the past decade.
8. To protect the value of public financial resources, there should be a consistent framework for determining interest rates applied to loans on-lent to government institutions or those paid on behalf of entities under guarantee agreements. Regular debt write-offs and concessional terms without adequate rate of return, impose high opportunity cost on public financial resources.
9. Limited efforts have been made to curb commitment fees, which reached Kshs. 770.55 million in the first nine months of FY 2024/25. These fees represent avoidable costs that could be minimized through better planning and timely disbursement practices.
10. The government has not effectively harnessed non-debt financing options. Improving frameworks and strategies to attract grants, climate finance, and other concessional funding is vital to reducing reliance on expensive borrowing for fiscal deficit financing.
11. While securitization can enhance liquidity in the short-term, the earmarking of revenue flows or assets effectively locks these resources in upfront cash requirements and may undermine the original development intent of National Government Public Funds. Furthermore, it increases the contingent liability exposure that could affect fiscal consolidation efforts and therefore undermine public debt sustainability.

6) COMMITTEE RECOMMENDATIONS

98. Arising from these consultative engagements, the Committee recommends, THAT:

1. In order to ensure full in-year pension disbursement, and clearance of pending obligations, the National Treasury should, within 30 days of the adoption of this report, implement an actionable framework to resolve delays in exchequer releases and address system downtimes that disrupt the processing of pension and gratuity disbursements.
2. In line with prior resolutions of the National Assembly, the National Treasury should expedite the implementation of the Treasury Single Account to consolidate idle government cash balances, improve liquidity management, and lower the government's borrowing costs through more predictable cash flow management.
3. To ensure full and timely disbursement of donor/loan financing and avoid incurrence of commitment fees, the National Treasury should ring-fence domestic counterpart funding from frequent supplementary budget reallocations and make counterpart funding provisions for loan agreements entered to mid-year.
4. To minimize the opportunity cost arising from waived on-lent loans and the payment of called-up government-guarantees, the National Treasury should, within 60 days:
    i. Formulate a standardized framework for determining interest rates on on-lent funds and the repayment of called up guaranteed loans. This framework should be aligned with market benchmarks on interest rates and credit worthiness.

ii. Formulate enforcement mechanism to ensure timely repayments and reduce the risk of defaults by institutions benefiting from government financial support.

5. The National Treasury should adopt and enforce performance-based benchmarks and disbursement readiness protocols to prevent the accumulation of undrawn external loans, which continue to attract costly commitment fees. No new loan agreements should be executed without full compliance with the performance-based benchmarks and disbursement readiness protocols.

6. To reduce reliance on debt and enhance access to alternative financing, the National Treasury should, within 60 days of the adoption of this report, develop and publish a comprehensive national strategy for mobilizing non-debt financial resources, including grants, climate finance, and other concessional funding.

SIGNED

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HON. ABDI SHURIE, CBS, MP.
CHAIRPERSON, PUBLIC DEBT & PRIVATIZATION COMMITTEE

10 JUNE 2025
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DATE

THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 11 JUN 2025
DAY: Wednesday
TABLED BY: Chairperson, Public Debt and Privatization Committee
CLERK-AT THE-TABLE: Lomale

REPUBLIC OF KENYA
13TH PARLIAMENT
NATIONAL ASSEMBLY – FOURTH SESSION - 2025

PUBLIC DEBT AND PRIVATIZATION COMMITTEE MEMBERS.

ADOPTION SCHEDULE

REPORT ON THE CONSIDERATION OF EXPENDITURES OF THE CONSOLIDATED FUND SERVICES UNDER THE FY 2025/26 BUDGET ESTIMATES

DATE 10/6/2025 **TIME** 10:00 AM **SITTING ………………**
VENUE BUNGE TOWER - 5TH FLOOR, COMM. ROOM 25.

No.	NAME	SIGNATURE
1.	**The. Hon. Abdi Shurie, M.P – Chairperson**	[signature]
2.	**The. Hon. Mrembo, Irene Njoki, M.P. – Vice-Chairperson**	[signature]
3.	The. Hon. Omboko Milemba, CBS, M.P.	
4	The. Hon. (Dr). Irene Kasalu, M.P.	
5.	The. Hon. Kwenya, Thuku Zachary, M.P.	[signature]
6.	The. Hon. Muiruri, Muthama Stanley, M.P.	[signature]
7.	The. Hon. Abdi, Abdi Ali, M.P.	
8	The. Hon. Aden Daud, EBS. M.P	Adendaud

No.	NAME	SIGNATURE
9.	The. Hon. Barongo, Nolfason Obadiah, M.P.	
10.	The. Hon. Chege Njuguna, M.P.	
11.	The. Hon. (Dr) Daniel Manduku, M.P.	
12.	The. Hon. Kipkoros, Joseph Makilap, M.P.	
13.	The. Hon. Kirwa, Abraham Kipsang, M.P.	
14	The. Hon. Letipila, Dominic Eli, M.P.	
15	The. Hon. (CPA) Suleka H. Harun, M.P.	

Committee Clerk ....

Date .... Signature ....